

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT,	)	
HEAT AND POWER COMPANY TO ADJUST	)	CASE NO. 91-370
ELECTRIC RATES	)	

O R D E R

This matter arises upon the December 7, 1992 filing of a motion by the Attorney General of the Commonwealth of Kentucky, by and through his Utility and Rate Intervention Division ("AG"), requesting that the Commission reconsider and revise the interest rate included in its Order of November 25, 1992. That Order, which directed The Union Light, Heat and Power Company ("ULH&P") to refund, with interest, the difference between rates in effect from May 5, 1992 through October 28, 1992, and rates made effective as of October 29, 1992, prescribed as the rate of interest the average of the Three-Month Commercial Paper Rate for the 12 months immediately preceding the date of the Order. The AG opines that the rate is unreasonably low.

In support of the motion, the AG argues that ratepayers' borrowing/credit rates should be considered in setting a fair rate for interest on refunds. The AG contends that since ratepayers do not participate in the commercial paper market, such interest rates are irrelevant to the refunding of ratepayer monies. The AG also argues that ratepayers should be viewed as investors and should be awarded interest that reflects ULH&P's requested rate of return in

its pending gas rate case.<sup>1</sup> Finally, the AG maintains that a rate of interest similar to that in ULH&P's late payment charge should be considered in this instance.

The Commission's primary consideration in establishing a rate of interest applicable to refunds is the return ratepayers might have earned had they invested their monies elsewhere rather than remit them as payment for utility services. There is a plethora of interest rates to consider, in addition to those offered by the AG. Given the nature and applicable time frame of the refunding issues normally brought before it, the Commission believes that short-term interest rates are generally representative of the rates that ratepayers could have earned. Such rates, under the usual connotation of the phrase short-term, could range from the rate on passbook savings accounts to the rate on one-year investments.

We have, for a number of years, prescribed the use of the Three-Month Commercial Paper Rate as an intermediate rate within the range of short-term rates. This rate generally tracks other short-term rates and serves as a reasonably accurate proxy for the rates on Three-Month Certificates of Deposits and Three-Month Treasury Bills, which are markets in which the general public may participate.<sup>2</sup> The fact that commercial paper rates are presently

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<sup>1</sup> Case No. 92-346, Application of The Union Light, Heat and Power Company to Adjust Gas Rates.

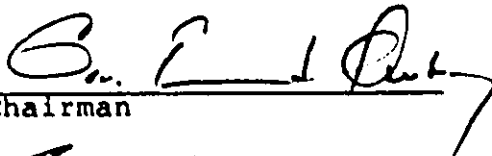
<sup>2</sup> All of these rates are reported in the Federal Reserve Bulletin and the Federal Reserve Statistical Release.

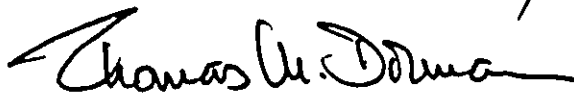
low compared to their historical levels is irrelevant; interest rates in general have declined in recent months and the rates for commercial paper have maintained a consistent relationship with other short-term rates. Having reconsidered the interest rate prescribed in our Order of November 25, 1992, the Commission finds no compelling reason to modify or revise same as requested by the AG.

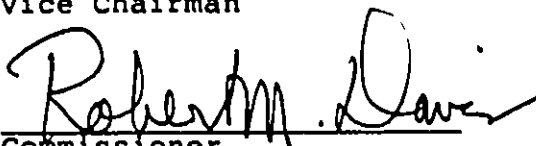
IT IS THEREFORE ORDERED that the AG's motion be and it hereby is denied.

Done at Frankfort, Kentucky, this 17th day of December, 1992.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director